The Federal Budget: Its impact on the economy

No. 1 Fiscal 1981
The President's Budget Proposal
No. 2 Fiscal 1981
First Congressional Budget Resolution
No. 3 Fiscal 1981
Second Congressional Budget Resolution

By Michael E. Levy, Assisted by Delos R. Smith & Steven Malin
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The Second Budget Resolution for fiscal 1981 was the most political resolution in the history of the Budget Act of 1974. Its spending and deficit numbers were obsolete at the very time of its passage on November 19, 1980. Its $10 billion allowance for the 1981 tax cut may be adequate, even though a tax cut of $35-$40 billion (at an annual rate) seems likely. While the $605 billion revenue estimate could be high by about $5 billion, it is the expenditure estimate of $632.4 billion that appears politically motivated and largely unrealistic. In fiscal 1981, spending will reach or exceed $660 billion unless forcefully restrained by the incoming Reagan Administration. Even then, containment of federal outlays close to $655 billion is about the best that can be hoped for. Hence, a deficit of $55-$60 billion—rather than the $27.4 billion projected in the Second Budget Resolution—can be expected for fiscal 1981, unless the incoming Reagan Administration adopts unprecedented actions that go well beyond any traditional efforts at cutting government spending.

For the past fourteen years, The Conference Board has published periodic analyses of *The Federal Budget: Its Impact on the Economy*. In June of 1976, the present format of three issues a year was adopted in order to provide more frequent monitoring as the President's budget proposals made their way through the Congress. This report is the last in the series.

Future budget reviews, beginning with the analysis of the forthcoming federal budget for fiscal 1982, will become part of a new series on *Economic Policy Issues*. This new publication is designed to cover a broader range of public policy issues—all of prime interest to decision makers in business and government.

For many years, we have used our own measure of "fiscal thrust" as the preferred shorthand method for expressing the initial, direct economic impact of the federal budget on the nation's economy. To cap fourteen years of budget analyses, in this final issue we are publishing our newly developed series of quarterly and annual data on "fiscal thrust" extending back to fiscal year 1960. This new historical series, accompanied by a brief review of "Measuring the Fiscal Impact of the Federal Budget," is contained in a pullout section in the center of the issue. (Additional copies may be obtained by request.) We intend to continue updating, improving and refining these fiscal impact measures.

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PERSPECTIVE ON THE FEDERAL BUDGET, 1980-1981

($ Billions)

	Fiscal 1980		Fiscal 1981					
	President's Initial Proposal (1/22/79)	Actual (10/29/80)	President's Initial Proposal (1/28/80)	OMB's Latest Revision (7/21/80)	First Budget Resolution (6/12/80)	Second Budget Resolution (11/20/80)	Second Budget Resolution Changes from: Actual 1980	Second Budget Resolution Changes from: Initial Proposal 1980
	(1)	(2)	(3)	(4)	(5)	(6)	(7) = (6) – (2)	(8) = (6) – (3)
Receipts	**502.6**	**520.0**	**600.0**	**604.0**	**613.8**	**605.0**	**85.0**	**5.0**
Outlays	**531.6**	**579.0**	**615.8**	**633.8**	**613.6**	**632.4**	**53.4**	**16.6**
Deficit	**—29.0**	**—59.0**	**—15.8**	**—29.8**	**0.2**	**—27.4**	**31.6**	**—11.6**
Receipts by Source	**502.6**	**520.0**	**600.0**	**604.0**	**613.8**	**605.0**	**85.0**	**5.0**
Individual income taxes	227.3	244.1	274.4	278.2	283.1[a]	277.6[a]	33.5[a]	3.2[a]
Corporation income taxes	71.0	64.6	71.6	66.4	67.6[a]	67.2[a]	2.6[a]	—4.4[a]
Social insurance	161.5	160.7	187.4	184.5	188.9[a]	187.1[a]	26.4[a]	—0.3[a]
Other receipts	42.8	50.6	66.6	74.9	74.2[a]	73.1[a]	22.5[a]	6.5[a]
Outlays by Function	**531.6**	**579.0**	**615.8**	**633.8**	**613.6**	**632.4**	**53.4**	**16.6**
National defense	125.8	135.9	146.2	157.5	153.7	159.1	23.2	12.9
International affairs	8.2	10.5	9.6	10.3	9.5	10.5	0.0	0.9
General science	5.5	6.0	6.4	6.2	6.1	6.1	0.1	—0.3
Energy	7.9	6.3	8.1	7.2	6.8	7.8	1.5	—0.3
Natural resources and environment	11.5	14.1	12.8	13.1	12.1	13.1	—1.0	0.3
Agriculture	4.3	5.0	2.8	2.2	2.3	2.1	—2.9	—0.7
Commerce and housing credit	3.4	7.5	0.7	0.7	0.0	1.0	—6.5	0.3
Transportation	17.6	20.8	20.2	19.2	18.8	19.7	—1.1	—0.5
Community development	7.3	10.2	8.8	9.3	9.2	10.5	0.3	1.7
Education and manpower	30.2	31.4	32.0	30.9	29.5	29.8	—1.6	—2.2
Health	53.4	58.2	62.4	63.4	61.7	63.2	5.0	0.8
Income security	179.1	192.2	220.0	230.4	219.6	225.6	33.4	5.6
Veterans' benefits	20.5	21.2	21.7	21.8	21.2	21.7	0.5	0.0
Justice	4.4	4.6	4.7	4.6	4.6	4.5	—0.1	—0.2
General government	4.4	4.9	4.9	4.7	4.3	4.4	—0.5	—0.5
Revenue sharing	8.8	8.3	9.6	7.3	6.8	7.1	—1.2	—2.5
Interest	57.0	64.6	67.2	67.6	72.2	71.9	7.3	4.7
Allowances	1.4	—	2.6	1.4	0.0	0.5	0.5	—2.1
Undistributed offsetting receipts	—19.0	—22.5	—25.2	—24.0	—24.7	—25.8	—3.3	—0.6

a—Receipt by source were not shown in budget resolutions. Figures shown here are congressional staff estimates.

Sources: Office of Management and Budget; Congressional Budget Office; U.S. Congress; The Conference Board.

The Second Budget Resolution for fiscal 1981, passed belatedly on November 19, establishes total budget receipts at $605.0 billion, outlays at $632.4 billion, and the budget deficit at $27.4 billion (see Table). The revenue estimates incorporate a net allowance of $10.1 billion for a tax cut for 1981 that could amount to $30-$35 billion in its first full year. Representative Giaiamo, Chairman of the House Budget Committee, put it thus:

> "The conferees are presupposing that the next Congress, the Congress which will meet in January, will enact a tax cut of the magnitude of about $30 billion to $35 billion which, depending on its makeup and how and when it will become effective, could affect fiscal year revenues in fiscal 1981 by about $10 billion."

The upcoming tax cut could well be somewhat larger ($35-$40 billion), but it may not be made retroactive. Moreover, withholding rates may not be fully adjusted (which would delay a major part of the individual tax cut to large 1982 tax refunds). Thus, as of now, the $10 billion fiscal 1981 allowance for a tax cut seems adequate. (Yet, the overall revenue estimate still appears to be high by about $5 billion). It is on the spending side, however, that

the latest budget estimates were completely obsolete even at the time of the passage of the Second Budget Resolution.

The Politics of Budget Outlays

In fact, in November, the Congressional Budget Office as well as the House considered $648 billion their best estimate of federal spending. (The Senate's estimate of $633 billion had been prepared in August, based on earlier economic assumptions that had become outdated long before November.) In essence, the final $632.4 billion spending ceiling was derived by reducing total outlay estimates by the approximate amount President-elect Reagan had pledged to save "through the elimination of waste, extravagance, fraud and abuse." These presumed "savings" were allocated among all functions other than defense and interest on the federal debt on a prorated basis. In the words of Budget Committee Chairman Giaimo:

> "What we did was to take the correct accurate estimate of what outlays would be, not only in the total aggregate of $648 billion, but also in the functional breakdown . . . then we assessed an arbitrary reduction across the board excluding defense and interest on the debt and offsetting receipts . . . recognizing that it is impossible to reduce those three functions, and we assessed the reduction pro rata across the board to all the other functions."

If there were any lingering doubts as to the highly political and unrealistic nature of the spending estimates contained in the Second Resolution, Representative Giaimo was quick to dispel those. He explained to his colleagues in the House:

> "During the course of the campaign, Governor Reagan told the American people that he would be able to cut billions of dollars out of the federal budget in the form of waste, extravagance, and abuse without impacting on any substantive and needed government programs. This conference report puts President-elect Reagan to the test. It takes him at his word . . . If it turns out that the President-elect cannot cut $17 billion in fraud, waste, and abuse, then at that point there would either have to be real programatic reductions or a third budget resolution."

At $648 billion, the "baseline" estimate of fiscal 1981 budget outlays appears to be conservative now. Most of the underlying economic assumptions of the Congressional Budget Office remain within the accepted range of economic forecasts for calendar year 1981: real growth of 1 percent, 8 percent unemployment, 9.5 percent inflation as measured by the GNP deflator, and 10.3 percent in terms of the consumer price index. But the assumption of an interest rate on three-month Treasury bills, averaging 10.6 percent, suggests that the projected interest payment on the public debt may be low by several billions, and there are other important spending estimates that appear to be very conservative.

Our own current estimates for fiscal 1981 put spending at about $660 billion, revenues (after the revenue loss from a delayed tax cut) at around $600 billion, and the budget deficit at $60 billion (roughly equal to the $59 billion deficit of fiscal 1980). An all-out effort by the incoming Reagan Administration to restrain nondefense spending could trim perhaps up to $5 billion from fiscal 1981 outlays and, hence, from the deficit. But an early and fully retroactive tax cut could reduce revenues well below our estimate and thus would enlarge the deficit by $10-$15 billion. Thus, unless the incoming Reagan Administration adopts unprecedented measures to contain spending—measures that go well beyond any traditional efforts at cutting government outlays—the federal budget deficit will not be reduced substantially over the next year.

The 1981 Tax Cut

One of the strongest election commitments of President-elect Reagan was the proposed passage of a Kemp-Roth type tax cut—that is, a 10 percent cut in the personal income tax in each of the next three years followed by indexation of the tax brackets for inflation. (Bracket indexation would eliminate the windfall revenue gain of the Federal Government from inflation; it has already been implemented by the state of California.)

In addition, substantial reductions in business taxes—mainly in the form of faster write-offs for business investment—have been an integral part of the policy package of the "supply-side economists" that was endorsed by President-elect Reagan. Other tax concessions to encourage saving have also been discussed (such as tax credits or increasing the exclusions of dividends and interest from the taxable income base). Altogether, the combination of Kemp-Roth and accelerated depreciа-

(text continued on page 13)

FIRST REPUBLICAN CONTROL OF SENATE SINCE 1952

The landslide of Ronald Reagan in the Presidential election removed some of the leading liberal Democratic candidates from both houses of Congress. Enough conservative Republican candidates for Congress rode to victory on Reagan's coattails to give the President-elect the first Senate majority since President Eisenhower's first term in office. This change in the power structure of the United States Congress should ease the confirmation of top Presidential appointees and enhance support for new programs and priorities, especially during the initial phases of the Reagan presidency.

The major upset of the 1980 elections occurred in the Senate, where the Republicans won control by picking up 12 seats. This is the largest net gain for any party since 1958, when the Democrats won 15 seats. The new Senate lineup will consist of 53 Republicans and 47 Democrats. Thus, the 97th Congress will have the largest number of Republican Senators since the 71st Congress (1929-1931), when the Republicans held 56 seats. This year's Republican Senate victory was the first since 1952; it ended the longest one-party domination of the Senate in American history.

The Republican gains ranged from New Hampshire in the Northeast to Washington State and Alaska in the West, and Georgia, Alabama, North Carolina, and Florida in the South. In the Midwest, important Republican gains were made in Iowa, Wisconsin and Indiana. The Republicans also held on to their ten seats that were up for reelection this year. Of the 24 Democratic seats contested in the election, fully one-half were lost.

Not only will the Senate have a Republican majority, it will be noticeably more conservative. Prominent liberal Democrats defeated in this year's election include Senators George McGovern of South Dakota, Warren G. Magnuson of Washington, John C. Culver of Iowa, Birch Bayh of Indiana, Frank Church of Idaho, and Gaylord Nelson of Wisconsin. Moreover, the defeated Democrats included a number of committee chairmen—the "power brokers" of Congress. Prominent among these defeated chairmen are Magnuson of the Appropriations Committee (also President pro tem of the Senate); Herman E. Talmadge (Georgia) of the Agriculture Committee; Church of the Foreign Relations Committee; and Nelson of the Small Business Committee.

(The conservative tide that put the Senate in Republican hands also had its effect in the House, although that body still has a Democratic majority. Senior Democratic Congressmen who were defeated included Al Ullman of Oregon, Chairman of the House Ways and Means Committee, and John Brademes of Indiana, the House Majority Whip.)

The Republican takeover of the Senate means that the Senate will have all new committee and subcommittee chairmen in the 97th Congress. Also staff assignments for about one-third of the Senate committees' approximately 1,500 professional staffers will change hands.

While it will take several months before the committees get around to designating subcommittee chairmen and hiring new staff aides, most of the new full committee chairmanships are already in place, even though the official designation will take place only after the 97th Congress convenes in January, 1981. The new Republican Senate chairmen are expected to be: Jesse Helms of North Carolina (Agriculture); Mark O. Hatfield of Oregon (Appropriations); John Tower of Texas (Armed Services); Jake Garn of Utah (Banking); Pete V. Demenici of New Mexico (Budget); Bob Packwood of Oregon (Commerce); James A. McClure of Idaho (Energy); Robert T. Stafford of Vermont (Environment); Bob Dole of Kansas (Finance); Charles H. Percy of Illinois (Foreign Relations); William V. Roth, Jr. of Delaware (Government Affairs); Strom Thurmond of South Carolina (Judiciary); Orrin G. Hatch of Utah (Labor) and Alan H. Simpson of Wyoming (Veteran Affairs).

Most of the new chairmen will be more conservative and have less tenure than the Democrats they will replace. For example, two of the anticipated new Republican chairmen are in their first term (Hatch and Simpson).

MEASURING THE FISCAL IMPACT OF THE FEDERAL BUDGET

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The economic and fiscal structures of modern industrialized nations provide a large degree of *passive* fiscal stabilization. Built-in fiscal stabilizers—the source of this *passive* stabilization—are defined as those government expenditures and receipts that move the government budget, without any explicit policy decision or action, toward a larger deficit (or a smaller surplus) during an economic contraction, and toward a larger surplus (or a smaller deficit) during an inflationary expansion. Unemployment benefits, accelerated early retirement under social security provisions, and the progressive rate structure of the individual income tax are among the major passive stabilizers of the U.S. federal budget structure. Legislation extending unemployment benefits, increasing defense spending, or changing the base or rate structure of our tax system are examples of an *active,* or discretionary fiscal policy.

It is important to distinguish the effects of passive fiscal responses of the federal budget from the effects of discretionary fiscal policy actions. The former are designed to *reflect* and mitigate changes in economic activity, whereas the latter *initiate* or trigger such changes. Since changes in the *observed* federal budget deficit (or surplus) combine both passive and discretionary fiscal responses, actual budget deficits cannot serve as a suitable measure of the direct impact of the federal budget on the economy. Specifically, a large and growing budget deficit during a recession could reflect mainly the negative feedback from a weak economy (rather than an "expan- ary" budget). Similarly, a large and rising budget surplus during a period of high employment with inflation could merely reflect the positive feedback of the inflation (rather than budgetary restraint) since, in the short run, inflation tends to raise government revenues faster than government expenditures.

The concept of the "high-employment budget surplus" (formerly called the full-employment surplus) was refined and applied in the United States in the early 1960's as a summary measure of the initial impact of discretionary policy.[1] The high-employment surplus is computed as the difference between receipts and expenditures of a given budget program that could be expected to materialize if the economy were operating at a high- or full-employment level of output consistent with price stability. Therefore, this measure eliminates most of the feedbacks from the traditional countercyclical built-in stabilizers, (but it assumes away, or disregards, inflation feedbacks).

Since the early 1960's, the high-employment budget surplus has been used as a shorthand measure of the discretionary impact of the federal budget; but serious conceptual and estimating problems have raised doubts as to the usefulness and reliability of this measure.

First, "high employment" has to be defined; then revenues and expenditures that *would* materialize at this level of economic activity have to be estimated; finally, inflation adjustments would be required during inflationary periods to prevent the high-employment surplus from giving misleading signals to policymakers.

[1]For an extensive discussion and critical review of the full-employment surplus, see Michael E. Levy, *Fiscal Policy, Cycles and Growth.* The Conference Board, New York, 1963; especially Ch. 6 and Appendix to Ch. 6. For even earlier developments and uses of this concept, see references in that study (p. 82); also Herbert Stein, *The Fiscal Revolution in America.* Chicago and London: The University of Chicago Press, 1969; especially Chs. 9 and 16.

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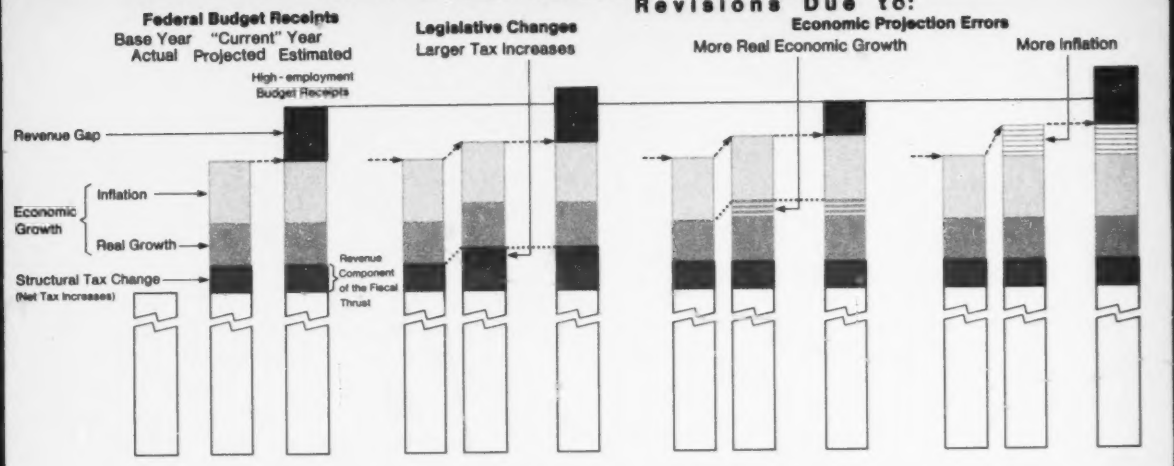
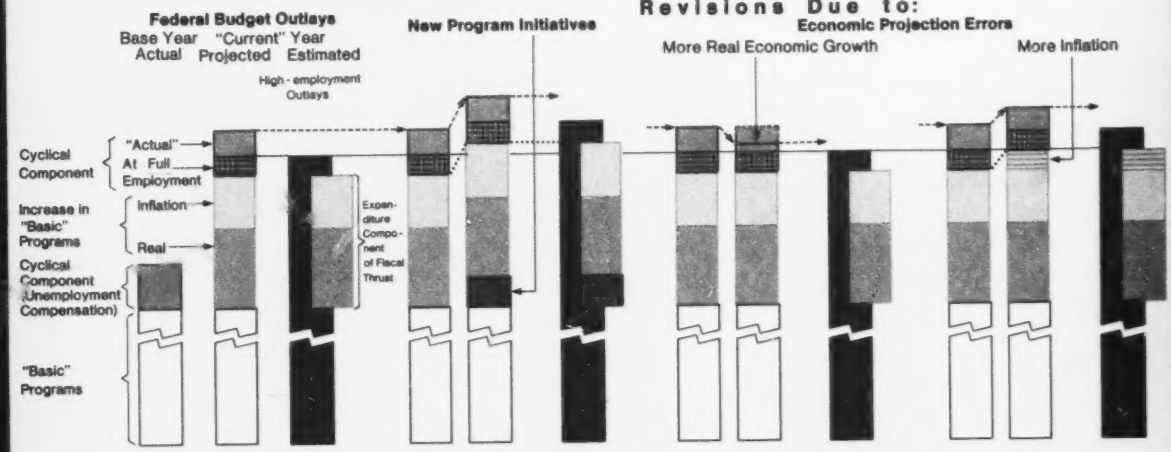
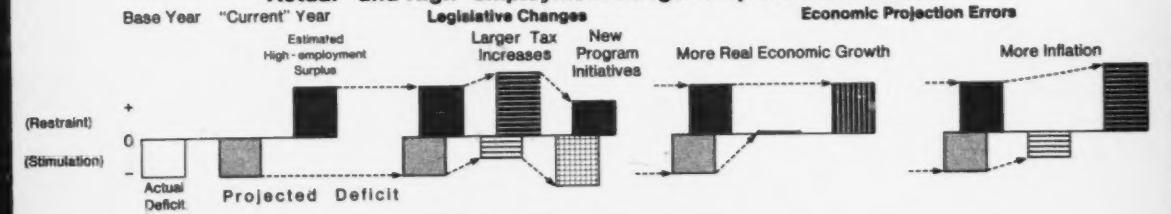
"Actual" and High-employment Budget Receipts



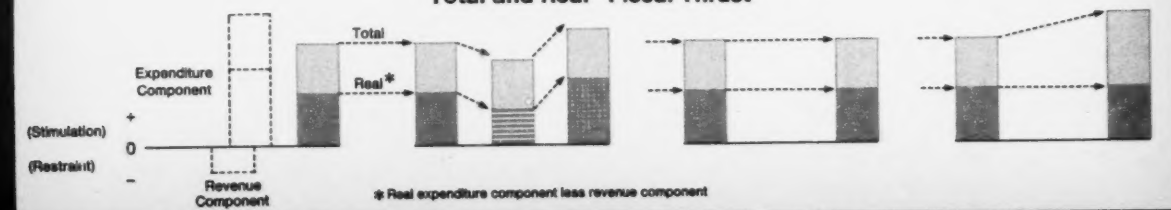
"Actual" and High-employment Budget Outlays



"Actual" and High-employment Budget Surpluses or Deficits



Total and Real "Fiscal Thrust"



* Real expenditure component less revenue component

During the first half of the 1960's, high employment was defined pragmatically in terms of a 4 percent unemployment rate. Since then, the labor-force mix has changed drastically. Higher proportions of women, teenagers and young adults are now in the labor force—groups that have above-average unemployment rates. The current equivalent unemployment rate (after adjusting for changes in labor-force mix) has been estimated as 5½-6 percent.

When unemployment is far above its high-employment rate (whichever way it is defined), estimates of the high-employment gaps—that is, the difference between the actual, and the would be high-employment budget receipts and outlays—become rather tenuous. This problem is particularly serious for estimates of the revenue gap. For example, from December, 1974 through June, 1977, the unemployment rate remained continuously above 7 percent; it remained above 6 percent until June, 1978. This meant that estimates of high-employment revenue gaps for this period could never be checked against actual, observed high- employment revenues. Frequent tax changes further aggravated these estimating problems.

Even more serious distortions arise from the effects of inflation on the budget. Since, in the short run, inflation tends to inflate federal revenues faster than federal expenditures, accelerating inflation raises the high-employment surplus and creates the illusion of fiscal restraint, even while expansionary fiscal policy may be a major cause of this inflation (see Chart, Section 4: "More Inflation"). This problem has long been recognized by the experts, and several inflation adjustments of the high-employment surplus have been proposed.[2] Yet all suggested solutions present serious conceptual and estimating problems and none has been adopted to date.

[2]For example, Edward M. Gramlich, "Measures of the Aggregate Demand Impact of the Federal Budget," President's Commission on Budget Concepts, *Staff Papers and Other Materials Reviewed by the President's Commission,* U.S. Government Printing Office, Washington, D.C., 1967, pp. 438-440; also Arthur M. Okun and Nancy H. Teeters, "The Full Employment Surplus Revisited," *Brookings Papers on Economic Activity,* Washington, D.C.: The Brookings Institution, 1970, No. 1, pp. 90-96.

The Conference Board's measure of "fiscal thrust" eliminates most major estimating problems and, at least, part of the inflation- induced distortions that impair the reliability of the high-employment surplus. Fiscal thrust consists of increases in *discretionary* budget expenditures plus any *structural* tax reductions (or minus any structural tax increases). "Structural" tax changes are defined as changes in receipts due to a change in either the tax base or the tax rate. (Note that all changes are valued at *actual* GNP levels, rather than at hypothetical high-employment levels.) Hence, fiscal thrust measures the initial autonomous stimulation of the federal budget to which Keynesian-type multipliers may be applied in order to assess the full effect of the budget on the economy.[3]

On the revenue side, fiscal thrust excludes all economic feedbacks—even the feedbacks from inflation that cause the high-employment surplus to give misleading policy signals. The need for defining high employment and for estimating highly unreliable revenue gaps is also eliminated (see top panel of the chart).

Estimates of the expenditure component of fiscal thrust are also simpler and more reliable than those of high-employment expenditures (see the second panel of the chart). Moreover, The Conference Board's estimates include some refinements (particularly a timing adjustment for defense spending) that have not yet been incorporated into estimates of high-employment expenditures.[4] Both expenditure measures as currently calculated, however, contain distortions from inflation feedbacks. Fortunately, the effect of these distortions on fiscal thrust is less debilitating. The inflation feedback *raises* fiscal thrust, as currently measured; hence, it tends to exaggerate the true extent of fiscal stimulation during accelerating inflation—signalling *a need for greater restraint.* The inflation feedback also raises the high-employment surplus, thereby indicating *an exaggerated degree of restraint*—a

[3]In this connection, see also E. Gerald Corrigan, "The Measurement and Importance of Fiscal Policy Changes." *Federal Reserve Bank of New York Monthly Review,* (June, 1970), pp. 133-145.

[4]See Table, footnote 2.

MEASURING THE FISCAL IMPACT OF THE FEDERAL BUDGET

(NIA accounts data: $ billions or percent at seasonally adjusted annual rates)

	FEDERAL TAX CHANGES							
	Total Tax-Change Contribution [increase (—) or reduction (+)]	Tax Change: Increases (+) or Reductions (—)						Addendum:
		Personal Income Taxes	Corporate Income Taxes	Social Security Tax		Excise Taxes	All Other	GNP
				Rate	Base			
	(1) (1) = —(2) through —(7)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1959 III	0.0	0.0	0.0	0.0	0.0	0.0	0.0	486.5
1959 IV	—0.6	0.0	0.0	0.0	0.0	0.6	0.0	493.5
1960 I	—2.0	0.0	0.0	2.0	0.0	0.0	0.0	506.6
1960 II	0.0	0.0	0.0	0.0	0.0	0.0	0.0	506.5
1960 III	—0.1	0.0	0.0	0.0	0.0	0.1	0.0	506.2
1960 IV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	504.6
1961 I	—0.1	0.0	0.0	0.0	0.0	0.0	0.1	507.1
1961 II	0.0	0.0	0.0	0.0	0.0	0.0	0.0	518.2
1961 III	0.0	0.0	0.0	0.0	0.0	0.0	0.0	527.2
1961 IV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	540.7
1962 I	1.3	—0.2	—2.1	0.5	0.0	0.0	0.5	553.0
1962 II	0.2	—0.2	0.0	0.0	0.0	0.0	0.0	562.1
1962 III	0.0	0.0	0.0	0.0	0.0	0.0	0.0	567.8
1962 IV	0.1	0.0	0.0	0.0	0.0	—0.1	0.0	572.3
1963 I	—2.2	0.2	—0.4	2.1	0.0	0.0	0.3	580.2
1963 II	0.0	0.0	0.0	0.0	0.0	0.0	0.0	587.9
1963 III	0.2	0.0	—0.2	0.0	0.0	0.0	0.0	600.5
1963 IV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	610.4
1964 I	4.9	—3.2	—1.7	0.0	0.0	0.0	0.0	622.4
1964 II	5.9	—5.8	—0.1	0.0	0.0	0.0	0.0	632.4
1964 III	0.2	—0.2	0.0	0.0	0.0	0.0	0.0	642.1
1964 IV	0.1	0.0	—0.1	0.0	0.0	0.0	0.0	646.0
1965 I	1.2	0.4	—1.6	0.0	0.0	0.0	0.0	665.4
1965 II	1.6	—1.2	0.0	0.0	0.0	—0.4	0.0	678.7
1965 III	1.9	—1.5	—0.1	0.0	0.0	—0.3	0.0	695.1
1965 IV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	713.3
1966 I	—3.4	0.0	—0.2	2.9	1.4	—0.7	0.0	733.7
1966 II	—0.8	0.0	—0.1	0.0	0.6	0.3	0.0	747.6
1966 III	—2.0	0.0	0.0	0.0	1.4	0.0	0.6	759.0
1966 IV	—3.4	0.0	0.0	0.0	3.4	0.0	0.0	771.7
1967 I	1.7	0.0	0.1	1.4	—3.3	0.0	0.1	777.5
1967 II	0.1	0.0	—0.2	0.0	0.1	0.0	0.0	785.8
1967 III	0.0	0.0	0.0	0.0	0.0	0.0	0.0	803.1
1967 IV	0.0	0.0	—0.1	0.0	0.1	0.0	0.0	818.7
1968 I	—4.0	0.0	3.2	0.0	0.7	0.0	0.1	837.3
1968 II	—0.5	0.0	0.0	0.0	0.5	0.0	0.0	861.8
1968 III	—7.3	6.1	0.0	0.0	1.0	0.0	0.2	880.0
1968 IV	—3.2	1.0	0.1	0.0	2.1	0.0	0.0	894.7
1969 I	—4.8	3.6	0.1	3.2	—2.2	0.0	0.1	913.0
1969 II	—0.4	0.2	0.2	0.0	0.0	0.0	0.0	929.0
1969 III	3.6	—3.8	0.2	0.0	0.0	0.0	0.0	946.9
1969 IV	—0.4	0.2	0.2	0.0	0.0	0.0	0.0	953.3
1970 I	3.6	—4.5	0.7	0.0	0.0	0.0	0.2	964.2
1970 II	—0.5	0.2	0.3	0.0	0.0	0.0	0.0	976.5
1970 III	4.9	—5.5	0.1	0.0	0.0	0.2	0.3	992.6
1970 IV	—0.2	0.0	0.2	0.0	0.0	0.0	0.0	996.3
1971 I	3.7	—4.3	—2.6	3.2	0.0	0.0	0.0	1034.0
1971 II	1.3	—0.1	—0.4	0.0	0.0	—0.8	0.0	1056.2
1971 III	3.1	0.3	—2.2	0.0	0.0	—1.3	0.1	1072.4
1971 IV	—1.6	2.4	—0.5	0.0	0.0	—0.3	0.0	1091.2
1972 I	5.9	—6.7	—0.8	0.0	0.6	—0.6	1.6	1127.0
1972 II	2.0	—2.4	—0.2	0.0	0.6	0.0	0.0	1156.7
1972 III	—3.3	2.2	—0.2	0.0	1.3	0.0	0.0	1181.4
1972 IV	—5.1	0.0	—0.2	0.0	5.3	0.0	0.0	1219.4
1973 I	—0.3	—2.2	—0.2	6.2	—3.8	—0.2	0.5	1265.3
1973 II	—0.7	0.0	—0.2	0.0	0.9	0.0	0.0	1288.4
1973 III	—1.0	—0.9	—0.3	0.0	2.0	0.0	0.2	1317.5
1973 IV	—8.8	0.0	—0.1	0.0	8.9	0.0	0.0	1355.1
1974 I	6.9	0.0	—0.1	0.1	—6.9	—0.2	0.2	1369.0
1974 II	—0.9	0.0	0.0	0.0	0.9	0.0	0.0	1400.1
1974 III	—1.8	0.0	—0.1	0.0	1.8	0.0	0.1	1430.1
1974 IV	—7.2	0.0	—0.1	0.0	7.3	0.0	0.0	1452.4

FEDERAL EXPENDITURE CHANGES

	Adjusted Expenditure Change Contribution	Expenditure Change: Increases (+) or Reductions (−)					Fiscal Thrust	
		Purchases		Transfers to Persons	Grants in Aid	All Other	$ Billions	% of GNP
	(9) (9) = (10) through (14)	(10)	(11)	(12)	(13)	(14)	(15) (15) = (1) + (9)	(16) (16) = (15):(8)
1959 III	1.2	0.1	−0.7	0.3	1.1	0.4	1.2	0.25
1959 IV	0.0	−0.5	0.0	0.6	−0.7	0.5	−0.6	−0.12
1960 I	−1.0	−1.2	0.3	−0.2	−0.6	0.8	−3.0	−0.59
1960 II	0.7	−0.1	0.9	0.6	0.4	−1.1	0.7	0.14
1960 III	2.7	1.0	0.5	0.7	0.1	0.4	2.6	0.51
1960 IV	1.5	0.5	−0.3	1.0	−0.1	0.4	1.5	0.30
1961 I	2.2	0.7	−0.2	1.7	0.6	−0.6	2.1	0.41
1961 II	2.3	0.7	1.0	0.8	0.0	−0.1	2.3	0.44
1961 III	2.9	0.1	0.5	0.1	0.1	1.9	2.9	0.55
1961 IV	1.8	1.7	0.3	−0.6	0.1	0.4	1.8	0.33
1962 I	4.7	2.4	1.0	0.5	0.4	0.4	6.0	1.08
1962 II	0.0	0.4	−0.4	−0.1	0.0	0.0	0.2	0.04
1962 III	2.2	−0.2	1.4	0.4	0.0	0.7	2.2	0.39
1962 IV	1.6	−0.2	0.8	0.6	0.4	−0.1	1.7	0.30
1963 I	−0.2	−0.7	0.8	1.3	0.2	−1.8	−2.4	−0.41
1963 II	0.1	0.3	−1.9	−0.9	0.3	2.3	0.1	0.02
1963 III	−0.3	−0.3	1.5	0.2	0.6	−2.3	−0.1	−0.02
1963 IV	4.4	0.1	1.3	0.5	0.5	2.0	4.4	0.72
1964 I	1.4	−0.5	0.4	0.8	0.2	0.4	6.3	1.01
1964 II	−0.3	−0.3	0.3	−0.5	0.3	0.0	5.6	0.89
1964 III	−0.9	−0.6	−0.5	0.2	0.1	−0.1	−0.7	−0.11
1964 IV	0.2	−1.0	0.8	0.1	0.2	0.1	0.3	0.05
1965 I	0.5	−0.8	0.3	1.2	−0.2	0.1	1.7	0.26
1965 II	2.2	1.2	0.6	−0.4	0.5	0.2	3.8	0.56
1965 III	6.0	1.0	0.7	3.5	0.3	0.4	7.9	1.14
1965 IV	4.3	3.8	0.5	−1.1	0.3	0.9	4.3	0.60
1966 I	5.5	2.0	−0.2	1.0	1.7	1.0	2.1	0.29
1966 II	4.3	3.3	−0.2	−0.3	1.1	0.3	3.5	0.47
1966 III	5.8	4.3	0.5	1.6	0.5	−1.0	3.8	0.50
1966 IV	5.6	2.3	−0.4	3.2	0.1	0.3	2.2	0.29
1967 I	7.7	4.4	0.8	2.5	0.3	−0.2	9.4	1.21
1967 II	2.5	1.0	−0.3	0.6	−0.4	1.5	2.6	0.33
1967 III	1.6	2.1	0.7	0.7	1.1	−2.9	1.6	0.20
1967 IV	4.8	1.0	0.6	0.7	1.5	1.0	4.8	0.59
1968 I	4.7	2.6	−0.2	1.9	0.3	0.0	0.7	0.08
1968 II	10.0	1.1	1.3	2.8	1.0	3.9	9.5	1.10
1968 III	−1.4	−0.5	0.6	1.2	0.0	−2.7	−8.7	−0.99
1968 IV	2.3	0.7	−0.6	1.0	0.1	1.1	−0.9	−0.10
1969 I	3.3	−2.1	0.6	1.3	0.2	3.3	−1.5	−0.16
1969 II	−2.8	0.3	−0.4	0.9	0.7	−4.3	−3.2	−0.34
1969 III	5.7	1.5	−0.8	0.7	0.7	3.5	9.3	0.98
1969 IV	3.2	−0.1	0.0	1.0	1.5	0.8	2.8	0.29
1970 I	−0.4	−1.2	1.4	1.8	1.5	−3.8	3.2	0.33
1970 II	13.2	−2.9	0.5	9.3	0.5	5.7	12.7	1.30
1970 III	−1.9	−0.2	−1.3	−0.2	0.8	−0.9	3.0	0.30
1970 IV	3.2	0.0	1.1	3.1	0.6	−1.6	3.0	0.30
1971 I	5.7	−0.7	1.5	1.2	1.8	1.9	9.4	0.91
1971 II	8.5	−1.9	0.9	7.1	1.9	0.5	9.8	0.93
1971 III	−0.4	−1.2	2.8	0.0	0.0	−1.9	2.7	0.25
1971 IV	4.2	1.1	0.1	0.9	1.5	0.6	2.6	0.24
1972 I	10.5	4.7	0.8	2.2	1.0	1.8	16.4	1.46
1972 II	8.8	−0.3	−0.1	0.1	7.1	1.9	10.8	0.93
1972 III	−4.2	−2.7	0.2	0.9	−4.6	2.0	−7.5	−0.63
1972 IV	17.9	1.6	0.4	10.5	11.6	−6.2	12.8	1.05
1973 I	5.5	0.8	1.1	1.3	−4.2	6.5	5.2	0.41
1973 II	−1.2	−1.0	−3.1	1.6	−1.0	2.3	−1.9	−0.15
1973 III	1.4	−0.6	0.6	2.5	−0.5	−0.6	0.4	0.03
1973 IV	6.4	1.9	2.3	2.6	0.3	−0.8	−2.4	−0.18
1974 I	9.7	0.2	1.1	7.4	2.4	−1.4	16.6	1.21
1974 II	12.2	1.2	2.1	6.8	0.8	1.4	11.3	0.81
1974 III	15.8	2.1	2.0	7.0	0.2	4.5	14.0	0.98
1974 IV	8.5	1.7	2.1	6.4	2.1	−3.9	1.3	0.09

MEASURING THE FISCAL IMPACT OF THE FEDERAL BUDGET (continued)

(NIA accounts data; $ billions or percent at seasonally adjusted annual rates)

	FEDERAL TAX CHANGES							
	Total Tax-Change Contribution [increase (—) or reduction (+)]	Tax Change: Increases (+) or Reductions (—)						Addendum: GNP
		Personal Income Taxes	Corporate Income Taxes	Social Security Tax		Excise Taxes	All Other	
				Rate	Base			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	(1) —(2) through —(7)							
1975 I	10.4	—0.1	—4.0	0.0	—6.2	—0.3	0.2	1454.7
1975 II	40.7	—40.3	—0.7	0.0	0.3	0.0	0.0	1498.6
1975 III	—28.9	28.6	—0.4	0.0	0.7	0.0	0.0	1564.0
1975 IV	—2.3	0.0	—0.2	0.0	2.5	0.0	0.0	1598.0
1976 I	—6.7	8.6	0.1	0.0	—1.9	—0.3	0.2	1653.7
1976 II	—0.3	0.5	—0.6	0.0	0.4	0.0	0.0	1683.1
1976 III	—1.3	1.0	—0.7	0.0	0.9	0.0	0.1	1715.8
1976 IV	—0.3	—2.9	—1.0	0.0	4.2	0.0	0.0	1756.1
1977 I	18.8	—10.6	—5.6	0.0	—3.1	—0.3	0.8	1820.2
1977 II	2.6	—2.5	—0.7	0.0	0.6	0.0	0.0	1876.0
1977 III	4.4	—5.2	—0.5	0.0	1.2	0.0	0.1	1930.5
1977 IV	—3.5	—0.3	—0.4	0.0	4.2	0.0	0.0	1971.3
1978 I	—8.8	5.1	1.8	3.6	—3.3	—0.4	2.0	2011.3
1978 II	—0.2	0.0	—0.4	0.0	0.6	0.0	0.0	2104.2
1978 III	—6.6	5.6	—0.3	0.0	1.2	0.0	0.1	2159.6
1978 IV	—4.1	0.4	—0.5	0.0	4.2	0.0	0.0	2235.2
1979 I	7.7	—2.7	—7.7	1.6	0.0	—0.4	1.5	2292.1
1979 II	—1.0	—0.1	—0.7	0.0	1.8	0.0	0.0	2329.8
1979 III	—1.4	0.5	—0.7	0.0	1.6	0.0	0.0	2396.5
1979 IV	—8.5	0.0	—0.5	0.0	9.0	0.0	0.0	2456.9
1980 I	25.0	—22.3	—0.9	0.5	—5.7	3.0	0.4	2520.8
1980 II	—4.9	—2.3	—2.8	0.0	1.0	9.0	0.0	2521.3
1980 III	—23.7	21.4	—1.5	0.1	0.4	3.3	0.0	2583.0
1980 IV est.	—7.7	—0.3	—1.2	0.0	5.0	3.2	1.0	2660.0
1981 I est.	9.8	—25.0	—1.8	12.8	—3.5	2.7	5.0	2725.0
1981 II est.	—1.7	—2.1	—1.3	0.4	0.1	3.1	1.5	2770.0
1981 III est.	—28.3	25.4	—2.0	0.4	0.1	3.3	1.1	2840.0
By Fiscal Years								
1960	—2.6	0.0	0.0	2.0	0.0	0.6	0.0	497.3
1961	—0.2	0.0	0.0	0.0	0.0	0.1	0.1	508.3
1962	1.5	—0.4	—2.1	0.5	0.0	0.0	0.5	546.9
1963	—2.1	0.2	—0.4	2.1	0.0	—0.1	0.3	576.3
1964	11.0	—9.0	—2.0	0.0	0.0	0.0	0.0	616.2
1965	3.1	—1.0	—1.7	0.0	0.0	—0.4	0.0	657.1
1966	—2.3	—1.5	—0.4	2.9	2.0	—0.7	0.0	721.1
1967	—3.6	0.0	—0.1	1.4	1.6	0.0	0.7	774.4
1968	—4.5	0.0	3.1	0.0	1.3	0.0	0.1	829.9
1969	—15.7	10.9	0.4	3.2	0.9	0.0	0.3	903.7
1970	6.3	—7.9	1.4	0.0	0.0	0.0	0.2	959.0
1971	9.7	—9.9	—2.7	3.2	0.0	—0.6	0.3	1019.2
1972	9.4	—6.4	—3.7	0.0	1.2	—2.2	1.7	1110.5
1973	—9.4	0.0	—0.8	6.2	3.7	—0.2	0.5	1237.5
1974	—3.8	—0.9	—0.5	0.1	4.9	—0.2	0.4	1359.2
1975	42.1	—40.4	—4.9	0.0	3.2	—0.3	0.3	1457.3
1976	—38.2	37.7	—1.1	0.0	1.7	—0.3	0.2	1621.0
1977	25.5	—21.2	—7.8	0.0	2.9	—0.3	0.9	1843.3
1978	—19.1	10.4	0.7	3.6	2.7	—0.4	2.1	2060.4
1979	1.2	—1.9	—9.6	1.6	7.6	—0.4	1.5	2313.4
1980	—12.1	—3.2	—5.7	0.6	4.7	15.3	0.4	2520.5
1981 est.	—27.9	—2.0	—6.3	13.6	1.7	12.3	8.6	2748.8

[1]Timing of the effect of the increase in the tax base on the employee's part of contributions has been changed by the authors to concentrate this increase in the last two calendar quarters, when they become effective.

[2]Includes timing adjustment of defense spending from a delivery to an approximate "work-in-progress" basis and excludes changes in "regular" unemployment benefits.

Sources: Office of Management and Budget; Bureau of Economic Analysis (including unpublished data); The Conference Board.

FEDERAL EXPENDITURE CHANGES

	Adjusted Expenditure Change Contribution	Expenditure Change: Increases (+) or Reductions (−)					Fiscal Thrust	
		Purchases		Transfers to Persons	Grants in Aid	All Other	$ Billions	% of GNP
	(9)	Defense (10)	Non-defense (11)	(12)	(13)	(14)	(15)	(16)
	(9) (10) through (14)						(15) (1) (9)	(16) (15):(8)
1975 I	14.6	1.8	0.8	10.5	4.1	−2.5	25.0	1.72
1975 II	23.0	1.4	0.5	12.0	4.0	5.0	63.7	4.25
1975 III	12.0	1.4	0.9	3.3	2.7	3.8	−16.9	−1.08
1975 IV	10.7	2.2	2.1	2.0	1.5	2.9	8.4	0.53
1976 I	1.0	−0.7	−0.2	3.5	1.0	−2.5	−5.7	−0.34
1976 II	−0.3	−0.4	0.9	−1.5	0.2	0.4	−0.6	−0.04
1976 III	11.5	0.9	1.4	6.4	1.5	1.3	10.2	0.59
1976 IV	11.6	2.4	2.4	2.6	4.5	−0.3	11.3	0.64
1977 I	3.1	3.0	0.6	2.3	−2.6	−0.2	21.9	1.20
1977 II	8.8	1.5	2.9	0.3	2.8	1.3	11.4	0.61
1977 III	17.2	0.8	2.2	6.1	5.9	2.2	21.6	1.12
1977 IV	11.7	2.5	3.1	2.8	−1.0	4.3	8.2	0.42
1978 I	6.7	1.2	−1.5	1.7	4.0	1.3	−2.1	−0.10
1978 II	2.9	0.6	−3.3	0.4	2.3	2.9	2.7	0.13
1978 III	11.1	0.8	3.3	8.5	0.9	−2.4	4.5	0.21
1978 IV	17.3	2.2	4.5	2.6	3.1	4.9	13.2	0.59
1979 I	6.5	2.2	2.4	4.8	−2.9	0.0	14.2	0.62
1979 II	6.7	2.6	−4.5	5.3	−0.1	3.4	5.7	0.24
1979 III	22.4	3.0	−1.8	15.9	4.1	1.2	21.0	0.88
1979 IV	24.8	5.6	9.9	3.9	2.5	2.9	16.3	0.66
1980 I	20.1	5.0	2.8	7.4	1.7	3.2	45.1	1.79
1980 II	16.7	4.5	2.6	6.3	0.0	3.3	11.8	0.47
1980 III	31.1	5.0	−3.7	28.4	0.4	1.0	7.4	0.29
1980 IV est.	10.5	7.8	2.5	2.2	−0.6	−1.4	2.8	0.11
1981 I est.	10.1	4.1	−1.3	4.8	1.3	1.2	19.9	0.73
1981 II est.	15.7	4.2	0.7	8.3	1.4	1.1	14.0	0.51
1981 III est.	22.6	4.2	1.0	15.9	0.2	1.3	−5.7	−0.20
By Fiscal Years								
1960	0.9	−1.7	0.5	1.3	0.2	0.6	−1.7	−0.34
1961	8.7	2.9	1.0	4.2	0.6	0.1	8.5	1.67
1962	9.4	4.6	1.4	−0.1	0.7	2.7	10.9	1.99
1963	3.7	−0.8	1.1	1.4	0.9	1.1	1.6	0.28
1964	5.2	−1.0	3.5	1.0	1.6	0.1	16.2	2.63
1965	2.0	−1.2	1.2	1.1	0.6	0.3	5.1	0.78
1966	20.1	10.1	0.8	3.1	3.4	2.6	17.8	2.47
1967	21.6	12.0	0.6	7.9	0.5	0.6	18.0	2.32
1968	21.1	6.8	2.4	6.1	3.9	2.0	16.6	2.00
1969	1.4	−1.6	0.2	4.4	1.0	−2.6	−14.3	−1.58
1970	21.7	−2.7	1.1	12.8	4.2	6.2	28.0	2.92
1971	15.5	−2.8	2.2	11.2	5.1	−0.1	25.2	2.47
1972	23.1	4.3	3.6	3.2	9.6	2.4	32.5	2.93
1973	18.0	−1.3	−1.4	14.3	1.8	4.6	8.6	0.69
1974	29.7	2.7	6.1	19.3	3.0	−1.4	25.9	1.91
1975	61.9	7.0	5.4	35.9	10.4	3.1	104.0	7.14
1976	23.4	2.5	3.7	7.3	5.4	4.6	−14.8	−0.91
1977	40.7	7.7	8.1	11.3	10.6	3.0	66.2	3.59
1978	32.4	5.1	1.6	13.4	6.2	6.1	13.3	0.65
1979	52.9	10.0	0.6	28.6	4.2	9.5	54.1	2.34
1980	92.7	20.1	11.6	45.6	4.6	10.4	80.6	3.20
1981 est.	58.9	20.3	2.9	31.2	2.3	2.2	31.0	1.13

dangerously wrong signal for policymakers. (Compare panels 3 and 4 of the chart.)

In the future—with the cooperation of the Office of Management and Budget, the Congressional Budget Office, and the Bureau of Economic Analysis—it should be possible to isolate and eliminate the major inflation feedbacks from the expenditure component of fiscal thrust. These consist of the cost-of-living escalators which, in recent years, have become a legal component of federal pensions, social security, food stamps, and most other entitlement programs. Upon their elimination, the net, or "real," expenditure component as well as "real" fiscal thrust would provide a superior measure of the direct expansionary impact of the budget, virtually free of inflation- feedback biases (see second and last panel of the chart).

So far, the impact of fiscal policy on the economy has been assessed by means of two simple summary measures: the high- employment surplus and fiscal thrust. In its simplest form, each measure gives equal weight to different types of budget expenditures and to all revenue effects that are included. Thus, for example, a discretionary increase of $1 billion for defense purchases is counted in exactly the same way as a $1 billion reduction in the income tax. Yet, extra spending differs from tax reductions in its initial impact (because tax changes affect saving as well as spending): Moreover, each specific type of spending or tax change is likely to have its own distinct dynamic multiplier and steady- state multiplier.[5] This means that each specific fiscal action has its own distinct time path of growing (or decaying) economic effects and its own distinct cumulative impact over time. Modern econometric models are capable of simulating the dynamic time path of different fiscal actions and their ultimate steady-state effect on the economy.[6] Fiscal thrust can be separated into more specific revenue and expenditure components (as is done in our table). Each component measures, in turn, an initial (positive or negative) stimulus that triggers a series of economic responses which may be simulated by the dynamic multipliers of econometric models. Thus, refined and improved data of the kind developed for our table are essential for more sophisticated, future analyses of the overall impact of the federal budget on the economy.

[5]Dynamic multipliers are period-by-period response rates of endogenous variables to exogenous shifts in parameters or flows. Thus, they measure response along the time path that leads ultimately to a new equilibrium position, whereas steady-state multipliers measure the ultimate equilibrium response.

[6]For example, see Gary Fromm and Howard Taubman, *Policy Simulations with an Econometric Model.* Washington, D.C.: The Brookings Institution, 1968, pp. 48-51. Albert Ando and Stephen M. Goldfeld, "An Econometric Model for Evaluating Stabilization Policies," in Albert Ando, E. Cary Brown, and Ann F. Friedlander, editors, *Studies in Economic Stabilization.* Washington, D.C.: The Brookings Institution, 1968, pp. 215-287. Michael K. Evans and Lawrence R. Klein, *The Wharton Econometric Forecasting Model.* 2nd Enlarged Edition, Philadelphia: University of Pennsylvania, 1968, Ch. V, pp. 50-69.

(text continued from page 3)

tion—or some modified version of such a package—is likely to cost about $35-$40 billion in its first full year. (The cost of full implementation of this package would probably exceed $100 billion in the third year.) A small group of fervent "supply-side economists" expects to recoup most, if not all, of the revenue loss from these tax cuts almost immediately through expanded investment and production. Most economists and policymakers, however, look for a delayed and partial recoupment. Hence, in their view initially most of the revenue loss from the tax cuts would affect the budget deficit.

In Congress, there have been serious reservations about the Kemp-Roth proposal—or any similar package that would commit Congress all at once to a large three-year tax cutting program. Most members of Congress seem to favor the traditional and more flexible approach of going it "one year at a time" or, at most, legislating for the next two years. (There has been some talk in Congress about "ten and six," i.e., a 10 percent income tax cut in 1981 followed by a 6 percent cut in 1982.)

Moreover, in order to contain the revenue loss and hold down the large budget deficit for fiscal 1981, Congress may be reluctant to make the 1981 tax cut fully retroactive. Particularly, the cut in personal income taxes may be made prospective—the most likely timing for the passage of a tax bill is between April and June—and withholding rates may not be fully adjusted. Thus, the fiscal 1981 revenue loss, even from a $35-$40 billion tax cut (at annual rates), could be limited to about $10 billion.

Spending Cuts: Counting Small Blessings

As a partial offset to tax cuts, and as a means for containing the growth of the public sector, President-elect Reagan is committed to nondefense spending cuts. Initial cuts, he has said, will concentrate on eliminating "waste, extravagance, fraud and abuse" in government and include a reduction in Federal Government employment through hiring freezes. Similar programs have been pursued by nearly every newly elected President in recent history—with modest results. In the short run, the savings available from such relatively painless cuts and efficiency drives are, at best, insignificant relative to the size of the federal budget.

More substantive programmatic retrenchment in civilian programs—particularly in the entitlement programs and in their generous cost-of-living escalators—will become necessary if federal spending growth is to be slowed down in the face of rapid increases in defense spending. Yet, to date, the incoming Reagan Administration has side-stepped any serious discussion of such painful programmatic cutbacks. (Even discussion of the linkage of Federal cost-of-living escalators to a more representative, and less exaggerated, measure of consumer inflation than the consumer price index has been studiously avoided.)

Moreover, the latest Congressional budget reconciliation bill (H.R. 7765), passed on December 3, gives every indication that even modest substantive cuts in existing programs are politically difficult to achieve. This reconciliation procedure—the first of its kind—was designed to trim $6.4 billion from existing expenditure programs and add $4.2 billion in new revenues for fiscal 1981, as had been mandated by the reconciliation requirement of the First Budget Resolution. In the end, only $4.6 billion were cut from existing programs (and $3.6 billion were added in new revenues). This modest achievement involved the combined efforts of ten House committees, nine Senate committees, and over one hundred conferees; yet, it demonstrates that even modest initial programmatic cuts can produce significant cumulative results. From initial savings of a mere $4.6 billion in fiscal 1981, these cuts are projected to grow to $50.4 billion in cumulative savings over the five-year span, fiscal 1981-1985.

Encouraging as the first congressional attempt at reconciliation may be, it is far more instructive in highlighting the difficulties, rather than the achievements, of curtailing government spending for existing programs. This fact was recognized by several prominent Senators who had participated in the reconciliation process. Senator Dole's observations are particularly pertinent in this connection:

> "In my view, reconciliation is intended to bring spending reductions back into balance. Frankly, I found, particularly on the House side, some who are more concerned with pushing new spending programs in the reconciliation process than they were about reconciliation. So we ended up with less real savings than we had anticipated."

Not only was the reconciliation process diluted through the addition of a few new spending programs, but several meaningful spending cutbacks of considerable merit and

equity failed to survive because of heavy political pressure from the beneficiaries of these programs. The most prominent example is the twice-a-year cost-of-living adjustment currently provided for federal retirees. Social security retirees and other beneficiaries of federal programs that contain cost-of-living escalators receive their adjustments only once a year. Supporting the Administration's recommendation, the Senate had proposed to treat federal retirees in the same way for a saving of $700 million in fiscal 1981. However, the House and its conferees succeeded in retaining this special benefit.

Senator Bellmon recognized that the Senate defeat on this issue is indeed symptomatic of the immense political difficulties of getting federal spending for existing programs under control. His discourse on this subject bears repeating:

> "What the Senate sought to do, Mr. President, was to treat federal retirees the same way we treat social security recipients, recipients of federal welfare payments, food stamp recipients, and others. If we are ever really to control the federal budget, Mr. President, we simply must come to grips with "indexing," and twice-a-year indexing of federal retirees' pensions seems to this Senator to be the appropriate place to begin the process of 'deindexing.' "

The reconciliation process contains a basic lesson for the incoming Reagan Administration: in the fight against waste, extravagance, and low-priority spending programs, large congressional battles tend to produce puny victories.

December 16, 1980

The Conference Board's annual Financial Conference, held on February 24 and 25 at the Waldorf-Astoria Hotel in New York City, is likely to be of interest to many of our readers. The Agenda and a registration form are printed on pages 15 and 16.

TUESDAY, FEBRUARY 24 — 9:15 a.m. — 12:00 noon

A

Economic and Financial Outlook

Chairman
E.T. Gravette, Jr.
Chairman of the Board
The Bowery Savings Bank

Economic and Financial Outlook: An Overview
Lawrence Chimerine
Chairman and Chief Economist
Chase Econometrics

Monetary Policy and Interest Rates
George W. McKinney, Jr.
Senior Vice President
Irving Trust Company

Fiscal Policy: The Federal Budgets for 1981 and 1982
Michael E. Levy
Director, Economic Policy Research
The Conference Board, Inc.

Corporate Finance: Coping with Volatility
Edward S. Miller
Vice President and Treasurer
AMAX Inc.

TUESDAY, FEBRUARY 24 — 12:00 noon — 2:00 p.m.

B

Cash Bar
12:00 noon
-12:30 p.m.

Luncheon
12:30 p.m.
-2:00 p.m.

Chairman
Charles F. Barber
Chairman of the Board
ASARCO Incorporated
Trustee, The Conference Board, Inc.

Speaker
James D. Robinson, III
Chairman
American Express Company

WEDNESDAY, FEBRUARY 25 — 9:15 a.m. — 12:00 noon

E

Controlling Inflation in the 1980's

Chairman: Arthur F. Burns
Distinguished Scholar in Residence
American Enterprise Institute for Public Policy Research

U.S. Inflation: Can it be Controlled?
Gary M. Wenglowski
Partner and Director of Economic Research
Goldman, Sachs & Co.

Reducing the "Core" Inflation Rate: The Case for Investment Incentives
Robert A. Gough, Jr.
Vice President, National Economic Forecasting
Data Resources, Inc.

The Role of Monetary Policy
Allan H. Meltzer
John M. Olin Professor of Economics
Carnegie-Mellon University

The Government's Role in Enhancing Efficiency
John W. Kendrick
Professor of Economics
The George Washington University, Visiting Fellow, American Enterprise Institute for Public Policy Research

G

The Changing U.S. Financial System

Chairman: John G. Heimann
U.S. Comptroller of the Currency
Department of the Treasury

New Financial Competition: Effects of Legislation and Inflation
Sanford Rose
Associate Editor
American Banker

The Changing Role of U.S. Commercial Banks
Harry Taylor
Vice Chairman of the Board
Manufacturers Hanover Corporation

Foreign Banks in the United States Under the New Rules
Serge Bellanger
Executive Vice President and General Manager
Credit Industriel et Commercial

Thrift Institutions: Strategies for Survival
Saul B. Klaman
President
National Association of Mutual Savings Banks

H

Financial Planning: Challenges and Responses

Chairman: Juergen Ladendorf
Senior Vice President and Chief Planning Officer
Norton Simon Inc.

Allocating Capital to Business Units
Samuel W. Norwood
Vice President, Corporate Development
Fuqua Industries, Inc.

Capital Structures Reconsidered
Thomas J. McGuire
Vice President-Director, Commercial Paper Department, Moody's Investor Service Inc.

Planning and Decision-Making Through Financial Modeling
E. Leonard Arnoff
Principal and Director, Planning & Operations Services
Ernst & Whinney

Limiting Risks Through Financial Futures Markets
Jay L. Pomrenze
Vice President
Bankers Trust Company

TUESDAY, FEBRUARY 24 — 2:15 p.m. — 4:45 p.m.

C

Financial Markets: Responding to Inflation

Chairman: Maurice Mann
Vice Chairman
Warburg Paribas Becker Incorporated/A.G. Becker Incorporated

Stock Market: Reaching for New Highs?
William R. Grant
President and Chairman of the Investment Policy Committee
MacKay-Shields Financial Corporation

Bond Market: Viability Through Innovation
James A. Kaplan
President
Capital Management Sciences

Innovations in Mortgage Financing
David C. Melnicoff
Executive Vice President
The Philadelphia Saving Fund Society

New Approaches to Pension Funding: Protecting the Retiree
Harrison Givens, Jr.
Senior Vice President
The Equitable Life Assurance Society of the United States

D

Corporate Financing in a Competitive Environment

Chairman: David C. Collier
Vice President and Group Executive of the Finance Group
General Motors Corporation

Capital Market Metamorphosis
John G. Crosby
Vice President and Director, Director of Private Placements
Kidder, Peabody & Co. Incorporated

Raising Corporate Funds Directly From Investors
Maurice G. Wilkins, Jr.
Vice President and Treasurer
Textron Inc.

Financing in Inflation: A Corporate Strategy
Dale F. Frey
Vice President and Treasurer
General Electric Company

International Sources of Funds
Robert Frick
Executive Vice President of Financial Services
Bank of America National Trust & Savings Association

E

Focus on Financial Reporting

Chairman: Norman E. Auerbach
Chairman
Coopers & Lybrand

The FASB: Emerging Issues and Concerns
John W. March
Member of the Board
Financial Accounting Standards Board

Examining the Pension Accounting Alternatives
Gordon R. Worley
Executive Vice President—Finance
Montgomery Ward

Implications of FASB Currency Rule Changes
Ulyesse J. LeGrange
Vice President and Controller
Exxon Corporation

Experience with Inflation Accounting
Steven J. Golub
Partner
Deloitte Haskins & Sells

WEDNESDAY, FEBRUARY 25 — 12:00 noon — 2:00 p.m.

I

Cash Bar
12:00 noon
-12:30 p.m.

Luncheon
12:30 p.m.
-2:00 p.m.

Chairman
Kenneth A. Randall
President
The Conference Board, Inc.

Speaker
Henry Kaufman
Partner and Member
of the Executive Committee
Salomon Brothers

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The Conference Board is an independent, not-for-profit research institution with facilities in the United States, Canada and Europe. Its scientific studies of management and economics produce a continuing flow of information to assist leaders of business, government, labor and other institutions in arriving at sound decisions. The Board's research is also made available to the news media in order to contribute to public understanding of economic and management issues in market economics.

Conferences like this one enrich the Board's information program by offering to those in leadership positions the opportunity to share with each other and with the public their attitudes, opinions and experiences.

Michael E. Levy
Program Director
1981 Financial Conference

Michael Levy is Director of Economic Policy Research for The Conference Board, Inc. During his years with the Board, he has also taught frequently as Visiting Graduate Professor at the New School for Social Research and as Adjunct Professor at New York University. He has served as a consultant to several government agencies, including the Office of Management and Budget and the General Accounting Office, and has testified repeatedly before Congressional Committees on economic policy issues.

Author of several monographs and numerous professional articles, Dr. Levy was the editor and senior author of The Conference Board's analyses of *The Federal Budget: Its Impact on the Economy (1967-1980)*. He serves in a similar capacity for the Board's new publication *Economic Policy Issues*, initiated in 1981.

A member of numerous professional organizations, Dr. Levy is a past Director of the American Finance Association (1976-1978).

In planning this year's Financial Outlook Conference, Dr. Levy was assisted by James K. Brown, Patrick J. Davey, Paul R. Macchiaverna, Steven R. Malin, Vincent G. Massaro, Delos R. Smith and Francis J. Walsh, Jr.

REGISTRATION FORM

The 1981 Financial Outlook Conference

Tuesday, Wednesday, February 24-25, 1981
The Waldorf-Astoria Hotel, New York, New York

Complete and return this form to:
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Tuesday, February 24, 1981					Wednesday, February 25, 1981			
A.M. Panel	Lunch	P.M. Panels			A.M. Panels			Lunch
A	B	C	D	E	F	G	H	I

Conference Fees	Full Conference	Each Panel Session (per person)	Each Luncheon Session* (per person)
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